

EX PARTE OR LATE FILED



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December 18, 1997

RECEIVED

DEC 18 1997

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

Ms. Magalie Roman Salas  
Secretary  
Federal Communications Commission  
1919 M street, NW, Room 222  
Washington, D.C. 20554

RE: Ex Parte meeting  
CC Dkt. No. 97-208, Applications by BellSouth Telecommunications, Inc.  
and BellSouth Long Distance, Inc. for Provisioning of In-Region, interLATA  
Service in South Carolina.

Dear Ms. Roman Salas:

On Wednesday December 17, 1997, at the request of Audrey Wright of the Common Carrier Bureau, I provided copies of the prefiled testimony of Joseph Gillan, filed January 6, 1997 in the AT&T/BellSouth arbitration proceeding before the South Carolina Public Service Commission, Docket No. 96-358. Additionally, I provided pages 25-26, 51-57 and 71 of the Hearing Transcript, Volume II dated February 3, 1997 from that proceeding.

Two copies of this Notice are being submitted on the following business day to the secretary of the FCC in accordance with Section 1.1206(a)(1) of the Commission's rules.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert W. Quinn, Jr.".

Attachments

cc: Audrey Wright

Handwritten initials "D+Z" in black ink.

1 investment decisions concerning where to construct networks, invest in switching,  
2 add new capabilities, etc.<sup>6</sup>

3  
4 Q. DOES THIS PROCESS PARALLEL THE DEVELOPMENT OF FACILITIES  
5 COMPETITION IN THE LONG DISTANCE MARKET?

6 A. Yes. In the long distance market, early entrants like MCI were able to expand their  
7 services and customer base by reselling services off of AT&T's network. This  
8 growth financially justified the deployment of their own networks, providing  
9 internal investment capital and shareholder confidence, and encouraged the entry of  
10 others, including (what is now) the third major network provider, Sprint. Later, the  
11 continued growth of the resale market resulted in the construction of the fourth  
12 national network (WitTel) for the express purpose of providing wholesale carrier-to-  
13 carrier services for use by the "resale" industry.

14  
15 Q. WILL NETWORK CONSTRUCTION BE INSTANTANEOUS?

16 A. No. Local facilities deployment is a long-term proposition. It took the Bell  
17 operating companies more than 100 years to achieve the present state of the network  
18 and the Commission should not expect entrants to deploy comparable networks  
19 overnight.<sup>7</sup>

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<sup>6</sup> Teleport, in fact, has publicly stated that its business strategy is to win customers first and then build facilities in an efficient way to serve them (Telecommunications Reports, October 16, 1995, page 20).

<sup>7</sup> The Commission also should recognize that the Act provides a strong, potentially threatening, incentive for local network investment, that is, BellSouth's becoming a long distance company. This single action will transform BellSouth from the long distance industry's principal *supplier* to its principal *rival*. Long distance companies will not want to be as dependent upon BellSouth as they are today once BellSouth becomes their main competitor. Each will construct, and encourage the construction by others, of other networks in as short a time as possible.

DEC-17-1997 18:58 FROM AT&amp;T STATE GOVT AFFAIRS

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TO

14048107076 P.02

26

1

2 Q. DO YOU EXPECT CARRIERS WILL REPLICATE THE ENTIRE  
3 BELLSOUTH NETWORK?

4 A. No. It is likely that some portions of the network may never see a competitive  
5 alternative, certainly in the next several years. For instance, it is easy to visualize  
6 significant resistance on the part of residential homeowners to multiple network  
7 interface boxes being installed on their premises to reflect previous, and future,  
8 competitive choices in local services. Other elements of the network may best be  
9 provisioned by a sole network vendor (for instance, the loop and local switching in  
10 many areas). The point is not simply to encourage new construction -- the goal is to  
11 encourage *efficient* facilities deployment. Wholesale services and economically  
12 priced unbundled network elements are key elements of this transition.

13

14

### III. LOCAL SERVICES RESALE

15

16 Q. WHAT IS LOCAL SERVICES RESALE?

17 A. Local services resale is the purchase of an incumbent LECs services by a competing  
18 local service carrier on a wholesale basis with the intent to resell these services to  
19 consumers. Wholesale local services are expressly designed, supported, and *priced*  
20 to be resold by another carrier in the retail market. These wholesale local services  
21 provide multiple entrants a simple means to begin offering local exchange services  
22 and attract customers. BellSouth is required to offer its local services for resale at  
23 wholesale rates under Section 251(c)(4) of the Act.

24

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TO

14048107076 P.03

SUMMARY BY MR. GILLAN:

GOOD AFTERNOON. MY NAME IS JOE GILLAN. IT'S A PLEASURE TO BE HERE IN SOUTH CAROLINA AGAIN. THE PURPOSE OF MY TESTIMONY IS TO NOT GET INTO REALLY THE SPECIFIC DETAIL. THE NUMBER OF THE ISSUES THAT YOU WILL HEAR TODAY, BELIEVE ME, OVER THE NEXT SEVERAL HOURS I THINK YOU WILL HEAR ENOUGH DETAIL FROM THE REMAINING WITNESSES. RATHER, THE PURPOSE OF MY TESTIMONY IS TO TRY AND PROVIDE SOME BASIC CONTEXT TO UNDERSTAND WHAT ARE THE ISSUES HERE BEFORE YOU.

I'D LIKE TO START THAT PROCESS BY POINTING OUT, EVEN THOUGH THIS APPEARS TO BE A CASE BETWEEN BELLSOUTH AND AT&T, THAT'S ACTUALLY A MISNOMER. WHAT IS REALLY GOING ON HERE IS THAT THE TELECOMMUNICATIONS ACT PROVIDED ENTRANTS, ALL ENTRANTS, CERTAIN RIGHTS AND AT&T IS THE FIRST CARRIER TO ASK THAT ITS RIGHTS BE IMPLEMENTED. SO WHILE THE DEBATE MAY BE COUCHED TO YOU IN TERMS OF THIS IS AT&T VERSUS BELLSOUTH, I THINK IT'S MORE APPROPRIATE TO THINK ABOUT IT IN TERMS OF YOU'RE IMPLEMENTING THE ACT OR IMPLEMENTING THE PORTIONS OF THE ACT THAT WILL ENABLE ENTRY.

THE SECOND GENERAL COMMENT IS THAT, AS I SAT HERE AND LISTENED TO BELLSOUTH'S OPENING STATEMENT, I THINK THERE'S A LOT OF THINGS I COULD AGREE

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TO

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24

1 WITH THEM ON. WHERE WE PROBABLY HAVE DISAGREEMENT IS HOW  
2 DO WE GET TO THE END RESULT. BELLSOUTH TOLD YOU AT THE  
3 FIRST POINT THAT THE ACT IS ABOUT ALLOWING CARRIERS INTO  
4 EACH OTHER'S MARKETS. ON THAT WE AGREE. BELLSOUTH  
5 SOMEDAY WILL OFFER BOTH LOCAL AND LONG DISTANCE SERVICES;  
6 AND FOR THIS ACT TO BE A SUCCESS, WHAT THAT MEANS IS THAT  
7 OTHER LONG DISTANCE CARRIERS MUST ALSO BE ABLE TO OFFER  
8 LOCAL SERVICES. WHEN BELLSOUTH GOES TO OFFER ITS LONG  
9 DISTANCE SERVICES, IT WILL FIND ALL THE THINGS THAT IT  
10 NEEDS TO BECOME A LONG DISTANCE CARRIER OUT THERE IN THE  
11 MARKETPLACE TODAY BECAUSE WE'VE HAD TEN YEARS TO OPEN  
12 THAT MARKET TO COMPETITION. THERE ARE NO BARRIERS TO  
13 ENTERING THE LONG DISTANCE MARKET. BELLSOUTH WILL BE  
14 ABLE TO DO IT RAPIDLY, COMPLETELY, QUICKLY, UBIQUITOUSLY  
15 THROUGHOUT ITS ENTIRE REGION. THE ACT IS ABOUT CREATING  
16 THE TOOLS THAT OTHERS WILL USE TO ENTER THAT MARKET AS  
17 WELL.

18 WELL, WHAT ARE SOME OF THOSE  
19 TOOLS? BEFORE I EVEN START THAT, WHY SHOULD YOU CARE?  
20 WHY SHOULD YOU CARE ABOUT THESE VERY COMPLICATED CARRIER  
21 RELATIONSHIPS? I THINK IT COMES DOWN TO ONE THING. WHAT  
22 CARRIERS ARE ABLE TO BUY IS GOING TO DECIDE WHAT  
23 CONSUMERS ARE GOING TO PAY TOMORROW. THIS COMMISSION  
24 LIKE OTHERS IN THE NATION HAVE ALREADY ADOPTED A SYSTEM

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TO

14048107076 P.05

1 OF REGULATION FOR BELLSOUTH THAT WILL PERMIT IT TO  
2 RESPOND IN A MORE COMPETITIVE ENVIRONMENT. IN LESS THAN  
3 THREE YEARS, BELLSOUTH WILL BE IN A POSITION TO BEGIN  
4 RAISING LOCAL RATES TO SOUTH CAROLINA CONSUMERS. THE  
5 ONLY WAY TO PROTECT THOSE CONSUMERS FROM RATE INCREASES  
6 IS TO MAKE SURE THAT THERE ARE OTHER PROVIDERS OUT THERE  
7 THAT WILL TAKE THEIR BUSINESS, SO THAT THE THREAT OF A  
8 CUSTOMER GOING TO A COMPETITOR KEEPS BELLSOUTH FROM  
9 RAISING ITS RATES, BECAUSE UNDER THE TERMS OF ITS  
10 REGULATION PLAN IT CAN BEGIN THAT IN JUST A FEW YEARS.

11 NOW HOW WILL PEOPLE BE SERVED IN  
12 THE FUTURE? MR. LIGHTSEY IDENTIFIED THAT THERE ARE THREE  
13 BASIC TECHNIQUES IN THE ACT THAT OTHERS WILL EXPLAIN TO  
14 YOU IN MORE DETAIL. THERE IS THE TECHNIQUE OF BUILDING  
15 YOUR OWN NETWORK. IF YOU BUILD YOUR OWN NETWORK, YOUR  
16 CUSTOMERS WILL STILL WANT TO CALL CUSTOMERS IN BELLSOUTH,  
17 SO YOU MUST INTERCONNECT THESE NETWORKS SO YOUR CUSTOMERS  
18 CAN CALL THEIRS. THERE'S THE TECHNIQUE OF RESALE, BUYING  
19 BELLSOUTH'S SERVICES AND RESELLING THEM; AND THERE'S THE  
20 TECHNIQUE OF USING NETWORK ELEMENTS.

21 LOOKING AT EACH ONE OF THESE IN  
22 JUST A LITTLE BIT MORE DETAIL:

23 RESALE - RESALE IS THE SIMPLEST  
24 ENTRY TECHNIQUE IN THE ACT. IT BASICALLY SAYS THAT AN

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TO

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1 ENTRANT CAN COME IN AND BUY BELLSOUTH'S RETAIL SERVICE,  
2 OR RATHER A WHOLESALE EQUIVALENT TO IT, RESELL IT IN THE  
3 MARKET UNDER ITS OWN BRAND NAME. NOW, ALTHOUGH THAT'S  
4 GOING TO BE A RAPID ENTRY TECHNIQUE, ALL YOU END UP WITH  
5 ARE RESELLERS IN THE MARKET BASICALLY REOFFERING  
6 BELLSOUTH'S RETAIL SERVICE. THERE'S VERY LITTLE ABILITY  
7 TO CHANGE THE WAY THE SERVICE LOOKS AND THERE'S LITTLE  
8 ABILITY TO PUT PRICING PRESSURE ON BELLSOUTH. NEVERTHE-  
9 LESS, IT IS A TECHNIQUE THAT CARRIERS CAN USE TO ENTER  
10 THE MARKET QUICKLY AND COMPETE WITH BELLSOUTH.

11 THE HEART OF THE ACT, HOWEVER, I  
12 THINK GOES TO THE SECOND MAIN ENTRY TECHNIQUE. THE HEART  
13 OF THE ACT IS THE PRINCIPLE THAT CARRIERS CAN GO TO  
14 BELLSOUTH AND BUY NETWORK INGREDIENTS FROM BELLSOUTH,  
15 NETWORK ELEMENTS, AND USE THOSE INGREDIENTS TO BECOME A  
16 LOCAL TELEPHONE COMPANY AND OFFER SERVICE. THOSE NETWORK  
17 INGREDIENTS, BASIC INGREDIENTS, ARE THE NETWORK ELEMENTS  
18 ON THE CHART OVER THERE IN THE CORNER. TODAY WE HAVE  
19 LONG DISTANCE COMPETITION BECAUSE A POLICY DECISION WAS  
20 MADE TEN YEARS AGO THAT SAID LONG DISTANCE CARRIERS COULD  
21 USE THE BELL NETWORK TO PROVIDE LONG DISTANCE SERVICES.  
22 THE ACT BASICALLY TAKES THAT PRINCIPLE AND EXTENDS IT ONE  
23 STEP FURTHER AND SAYS, WE'RE GOING TO GO TO A FUTURE  
24 WHERE EVERYBODY CAN OFFER ANY SERVICE BY ENABLING

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TO

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1 CARRIERS TO BUY THE BELLSOUTH NETWORK AS A BASIC SET OF  
2 INGREDIENTS AND USING IT TO OFFER THEIR SERVICES.

3 THE ISSUES ON NETWORK INGREDIENTS,  
4 PRETTY SIMPLE: HOW MANY DO YOU MAKE AVAILABLE, WHAT  
5 PRICE DO YOU CHARGE, AND MAY CARRIERS COMBINE THEM? AS  
6 BELLSOUTH INDICATED, THEY DISAGREE ON WHAT COST MEANS.  
7 MY TESTIMONY AND THE TESTIMONY OF DR. KASERMAN INDICATES  
8 THAT COST IS ECONOMIC COST. THERE DOESN'T APPEAR TO BE A  
9 LOT OF DISPUTE ABOUT THAT IN ECONOMICS AT LEAST. WHAT  
10 INGREDIENTS NEED TO BE MADE AVAILABLE? AGAIN, THERE  
11 SEEMS TO BE GENERAL CONSENSUS ON WHAT ELEMENTS NEED TO BE  
12 AVAILABLE. CAN CARRIERS COMBINE THEM? THIS IS PROBABLY  
13 THE KEY. BELLSOUTH RECOGNIZES THAT IT HAS A LEGAL  
14 OBLIGATION TO ALLOW CARRIERS TO COMBINE ANY OF THESE  
15 INGREDIENTS THEY DESIRE TO OFFER ANY SERVICE THAT THEY  
16 WANT TO OFFER. THIS IS A CRITICAL ELEMENT OF THE ACT  
17 BECAUSE IT IS THROUGH THIS ABILITY OF BUYING THESE  
18 GENERIC INGREDIENTS AND CREATING THEIR OWN SERVICES THAT  
19 CARRIERS WILL BE ABLE TO INNOVATE AND OFFER DIFFERENT  
20 SERVICES TO SOUTH CAROLINA CONSUMERS.

21 MR. LIGHTSEY USED THE EXAMPLE OF  
22 CALL WAITING AND SUGGESTED THAT IT MADE SENSE FOR THIS  
23 COMMISSION TO NOT LET CARRIERS BUY THE CAPABILITY IN THE  
24 BELLSOUTH NETWORK TO OFFER CALL WAITING BUT INSTEAD COULD



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TO

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29

1 ONLY RESALE BELLSOUTH'S SERVICE. HIS EXPLANATION WAS  
2 THAT TODAY BELLSOUTH GETS \$3.40 AND THAT HE WOULD LIKE TO  
3 KEEP THE \$3.40 FROM GOING DOWN AS COMPETITORS COME INTO  
4 THE MARKET AND OFFER ALTERNATIVES. HE IMPLIED TO YOU  
5 THAT, UNDER THE AT&T VIEW OF THE WORLD, THEY WOULD GET TO  
6 OFFER CALL WAITING FOR FREE. I HAVE TO DISAGREE WITH MR.  
7 LIGHTSEY IN THE SENSE THAT I THINK HE IGNORED A VERY  
8 IMPORTANT PIECE OF THAT. UNDER THE AT&T PROPOSAL UNDER  
9 THE F.C.C. RULES, AN ENTRANT CAN'T OFFER ANY SERVICE  
10 WITHOUT FULLY COMPENSATING BELLSOUTH FOR THE NETWORK  
11 COMPONENTS THAT IT WOULD PURCHASE TO PROVIDE SERVICE.  
12 AT&T WOULD ONLY BE ABLE TO OFFER ANY SERVICE IF IT AGREED  
13 TO PAY THE FULL COST OF THE NETWORK ELEMENTS THAT IT  
14 INTENDS TO USE. SO IT'S NOT A QUESTION OF AT&T GETTING  
15 TO OFFER SOMETHING FOR FREE; IT'S ONLY A QUESTION OF AT&T  
16 COMPENSATING BELLSOUTH FOR THE COST OF THE NETWORK  
17 ELEMENTS AND THEN PROVIDING THE SERVICES. OF COURSE, IN  
18 THE BEGINNING ALL OF THESE NETWORK ELEMENTS ARE GOING TO  
19 HAVE TO BE PURCHASED FROM BELLSOUTH. THERE ARE NO OTHER  
20 NETWORK PROVIDERS IN THE MARKET TODAY AND IT'S GOING TO  
21 TAKE MANY YEARS FOR COMPETITIVE LOCAL NETWORKS TO BE  
22 DEVELOPED.

23 ON THIS CHART OVER HERE THERE'S A  
24 COMPARISON OF THE NUMBER OF LOCAL SWITCHES IN SOUTH

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TO

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1 CAROLINA THAT JUST IN BELLSOUTH'S TERRITORY USES TO  
2 PROVIDE LOCAL EXCHANGE SERVICE. THERE'S APPROXIMATELY  
3 150 OF THOSE TODAY IN SOUTH CAROLINA. IN COMPARISON,  
4 AT&T PROVIDES SERVICE WITH ONE. NATIONWIDE, THOSE  
5 NUMBERS WOULD BE, IN THE LOCAL EXCHANGE, CARRIERS HAVE  
6 23,000 LOCAL SWITCHES WHEREAS AT&T PROVIDES SERVICE WITH  
7 JUST OVER 130. DEVELOPING LOCAL NETWORKS IS A LONG-TERM  
8 PROPOSITION. LOCAL COMPETITION REQUIRES THAT OTHERS HAVE  
9 THE OPPORTUNITY TO USE THE BELLSOUTH NETWORK TO PROVIDE  
10 SERVICE.

11 FINALLY, IN ORDER FOR THE  
12 COMMISSION TO TRANSLATE THESE TOOLS INTO CHOICES THE  
13 CONSUMERS WILL ACTUALLY EXPERIENCE, BELLSOUTH IS GOING TO  
14 HAVE TO CHANGE AND INTRODUCE OPERATING SYSTEMS, AS WILL  
15 ALL NEW ENTRANTS, SO THAT THESE NETWORK INGREDIENTS CAN  
16 BE ORDERED AND COMBINED AND SERVICES OFFERED OVER THEM  
17 QUICKLY FOR CONSUMERS. THE ONLY WAY THAT SOUTH CAROLINA  
18 CONSUMERS ARE GOING TO HAVE A CHOICE OF LOCAL TELEPHONE  
19 COMPANIES IS IF IT IS AS EASY FOR A SOUTH CAROLINA  
20 CONSUMER TO CHANGE LOCAL TELEPHONE COMPANIES IN THE  
21 FUTURE AS IT IS TO CHANGE LONG DISTANCE CARRIERS TODAY.  
22 AND IF IT'S AS EASY FOR LONG DISTANCE CARRIERS TO BUY AND  
23 USE THESE NETWORK INGREDIENTS TO OFFER LOCAL EXCHANGE  
24 SERVICES.

PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA  
111 DOCTORS CIRCLE  
COLUMBIA, SC 29203

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TO

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1 NOW, IN CONCLUSION, THAT MAY SOUND  
2 LIKE A SOMEWHAT ONE-SIDED PROPOSITION, BUT IT SHOULD NOT  
3 BECAUSE THE ACT, AS MR. LIGHTSEY POINTED OUT, INCLUDES  
4 TWO ELEMENTS. IT INCLUDES THE OPPORTUNITY FOR OTHERS TO  
5 ENTER THE LOCAL MARKET; AND IF LOCAL COMPETITION IS  
6 ESTABLISHED, IT ALSO PROVIDES BELL SOUTH THE OPPORTUNITY  
7 TO PROVIDE LONG DISTANCE SERVICE. THE DIFFERENCE IS THAT  
8 WHEN BELL SOUTH GOES TO OFFER LONG DISTANCE SERVICE, THE  
9 LONG DISTANCE NETWORK ELEMENTS ARE ALREADY AVAILABLE TO  
10 IT. IT CAN BUY THOSE TODAY. THE OPERATING SYSTEMS TO  
11 ORDER THOSE ELEMENTS ALREADY EXIST. THEY WORK TODAY.  
12 THE ABILITY FOR CONSUMERS TO CHANGE LONG DISTANCE  
13 CARRIERS ALREADY EXISTS. THEY WORK TODAY. THE ONLY WAY  
14 ANYONE ELSE WILL HAVE AN OPPORTUNITY TO COMPETE IS IF  
15 THOSE SAME TYPES OF CAPABILITIES ARE MADE AVAILABLE TO  
16 CARRIERS TO OFFER LOCAL SERVICE.

17 THANK YOU.

18 MS. TAYLOR: DR. KASERMAN.

19 DR. KASERMAN: THANK YOU.

20  
21 TESTIMONY OF DR. DAVID L. KASERMAN

22 (PREFILED TESTIMONY OF DR.

23 KASERMAN IS AS FOLLOWS:)  
24

DEC-17-1997 19:01 FROM AT&amp;T STATE GOVT AFFAIRS

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TO

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71

1 retail stage in local exchange markets in South Carolina. In order to promote  
2 efficient entry, the price these entrants should pay for these inputs is equal to the  
3 incremental cost that BellSouth incurs to provide them. Moreover, due to the  
4 multiproduct nature of BellSouth's operations, the relevant cost to which prices  
5 should be equated is what is known as the total service long-run incremental cost, or  
6 TSLRIC.<sup>6</sup> TSLRIC, in turn, is conceptually identical to what the FCC has labeled  
7 TELRIC (total element long-run incremental cost) in their recent order on local  
8 competition issues.<sup>7</sup> This new term was coined to clarify that the pricing standard  
9 contained in the FCC Order is applicable to unbundled network elements as  
10 opposed to services. Otherwise, the two terms are synonymous.

11

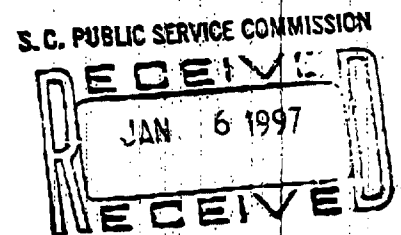
12 **Q. WHAT SPECIFIC PROPERTIES ARE EXHIBITED BY TOTAL SERVICE**  
13 **LONG-RUN INCREMENTAL COSTS?**

14 **A.** Costs measured on the basis of TSLRIC exhibit the following properties: (1) they  
15 are forward looking (as opposed to historical); (2) they reflect least cost  
16 technologies (as opposed to obsolete or inefficient methods of production); (3) they  
17 are incremental (as opposed to average) in nature; (4) they are long run (as opposed  
18 to short run); and (5) they are consistent with the principle of cost causation (as  
19 opposed to some arbitrary assignment of costs). Each of these properties is  
20 important for purposes of efficient pricing and promotion of efficient competition.<sup>8</sup>

21

22 **Q. WHY IS IT IMPORTANT THAT INPUT PRICES BE BASED ON COSTS**  
23 **THAT ARE FORWARD LOOKING?**

24 **A.** It is important that input prices be based on cost calculations that are forward  
25 looking, because it is precisely this perspective which governs the actions of



**DIRECT TESTIMONY OF**  
**JOSEPH GILLAN**  
**ON BEHALF OF AT&T COMMUNICATIONS**  
**OF THE SOUTHERN STATES, INC.**  
**BEFORE THE**  
**SOUTH CAROLINA PUBLIC SERVICE COMMISSION**

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**DIRECT TESTIMONY OF**  
**JOSEPH GILLAN**  
**ON BEHALF OF AT&T COMMUNICATIONS**  
**OF THE SOUTHERN STATES, INC.**

**BEFORE THE**  
**SOUTH CAROLINA PUBLIC SERVICE COMMISSION**

**Docket No. 96-358**

**Filed: January 6, 1997**

**I. QUALIFICATIONS AND EXECUTIVE SUMMARY OF TESTIMONY**

**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

**A. My name is Joseph Gillan. My business address is P. O. Box 541038, Orlando, Florida 32854.**

**Q. WHAT IS YOUR OCCUPATION?**

**A. I am an economist with a consulting practice specializing in telecommunications. My clients span a range of interests and have included state public utility commissions, consumer advocate organizations, local exchange carriers, competitive access providers and long distance companies.**

**Q. PLEASE BRIEFLY OUTLINE YOUR EDUCATIONAL BACKGROUND AND RELATED EXPERIENCE.**

1 A. I am a graduate of the University of Wyoming where I received B.A. (1978) and  
2 M.A. (1979) degrees in economics. My graduate program concentrated on the  
3 economics of public utilities and regulated industries.  
4

5 In 1980 I joined the Illinois Commerce Commission where I had responsibility for  
6 policy analysis relating to the emergence of competition in regulated markets, in  
7 particular the telecommunications industry. While on the staff of the Commission, I  
8 served on the staff subcommittee for the NARUC Communications Committee and  
9 was appointed to the Research Advisory Council overseeing NARUC's research  
10 arm, the National Regulatory Research Institute.  
11

12 In 1985, I left the Commission to join U.S. Switch, a venture firm organized to  
13 develop interexchange access networks in partnership with independent local  
14 telephone companies. At the end of 1986, I resigned my position of Vice President-  
15 Marketing to begin a consulting practice. I currently serve on the Advisory Council  
16 for New Mexico State University's Center for Regulation. A complete listing of my  
17 background, publications and prior testimony is included as Attachment JPG-1.  
18

19 Q. **WHY ARE YOU PROVIDING TESTIMONY IN THIS PROCEEDING?**

20 A. AT&T has requested that I discuss the impact of the principal issues in this  
21 arbitration on competition in general and, perhaps more importantly, the intended  
22 beneficiary of competition, consumers. Competition now resides at the heart of the  
23 nation's telecommunications policy. This is not because it benefits competitors, but  
24 because competition is the best mechanism to provide consumers with the lowest

1 prices and greatest choices -- and because where competition flourishes, regulation  
2 and government intervention are unnecessary.

3  
4 However, the fact that the parties before this Commission are large companies,  
5 should not be confused with the nature of their debate. In one corner, you have  
6 BellSouth, a monopoly whose incentive is to do as little as possible to open its  
7 markets. In the other corner, you have AT&T, a potential new entrant with the  
8 desire to offer local services broadly throughout South Carolina. Certainly, each  
9 party is primarily motivated by its own self-interest, but the public-interest  
10 embodied in the Telecommunications Act of 1996 (the Act) is providing consumers  
11 with choice. In this regard, AT&T's desire to offer services in competition with  
12 BellSouth and the public interest align.

13  
14 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

15 A. The Act holds the promise of a new era in telecommunications, an industry that  
16 provides the foundation for a modern, information-based, economy. This arbitration  
17 will implement those sections of the Act designed to open local exchange markets to  
18 competition, providing consumers a choice of their local service provider and  
19 promoting the deployment of new technologies, services and networks.

20  
21 The issues in this arbitration are complex, but its objectives are clear. In the  
22 testimony which follows, I demonstrate that:



- The fundamental intention of the Act is that local markets become competitive, not just for selected customers in certain metropolitan areas, but broadly throughout a state. However, the only way that ubiquitous competition can become a reality, is if the existing network is available for other competitors to use to provide local exchange and exchange access services. This is the core objective of this arbitration: to establish the terms, conditions and prices under which BellSouth's network and services will be available to rivals, including AT&T.
- The principal mechanism available to the Commission to influence the prices and choices experienced by consumers in the future is through its role establishing the prices and choices available to *carriers*. The path to consumer protection is choice -- choice among competing providers that are able to offer services with equal quality and comparable prices to those of BellSouth.
- The key to realizing the full benefits of competition is correctly pricing the network elements and resold services that rivals will purchase from BellSouth to provide service to end users. Where the entrant purchases the network functionality or facility underlying a service, the price of these elements should be their forward-looking, long-run incremental cost. Where a carrier purchases a wholesale service, the price of the wholesale service should be calculated by fully removing retail-related costs. Only under these pricing rules will entrants have the ability to broadly approach the market and provide consumers with a choice of local service provider.
- Providing entrants access to the existing network is the fastest path to deployment of competing facilities networks. Resale and the availability of unbundled network elements will both accelerate the construction of alternative local networks and yield a far more competitive environment at the end of the entry process than would otherwise exist.
- Consumers will consider local competition a failure unless consumers easily can change local carriers, and competitors may easily serve them. A robustly competitive local environment requires operational support systems that enable entrants to translate these new carrier-to-carrier arrangements into end user services and easily implement a consumers' decision to change its local service provider without extensive delays or unnecessary costs.

What matters most at the conclusion of this proceeding is that multiple entrants have the opportunity to broadly approach the South Carolina marketplace, designing services which they believe best satisfy the needs of their customers, on an

1 economic basis similar to that of BellSouth, and fully supported by operational  
2 systems which easily accommodate the choice made by consumers.

3  
4 Q. WILL THE COMMISSION'S DECISION HERE ESTABLISH THE BASIC  
5 CONDITIONS FOR ENTRY?

6 A. Yes. In this arbitration, the Commission will *comprehensively* establish *each* of the  
7 tools contemplated by the Act to promote local competition. The full mosaic of  
8 entry tools are needed if AT&T (or any other carrier) is to broadly approach the  
9 market, offering service to both residential and business customers. Because AT&T  
10 is requesting a full range of entry options -- options to which it is entitled under the  
11 Act -- the Commission will be establishing not only conditions necessary for  
12 AT&T's entry, but just as significantly, the conditions of entry for the entire  
13 industry.

14  
15 Q. ARE THE RECOMMENDATIONS IN YOUR TESTIMONY CONSISTENT  
16 WITH THE FCC'S RULES IMPLEMENTING THE ACT?

17 A. Yes. Although those portions of the FCC's Rules addressing pricing have been  
18 stayed, the remainder of its Rules establishing the *minimum* set of network elements  
19 that BellSouth must offer, requiring that network elements be provided in any  
20 combination without restriction, and ordering the introduction of non-discriminatory  
21 operating systems remain in effect. The FCC's Rules move the Act one step closer  
22 to implementation, but it will be this Commission's resolution of the issues in this  
23 arbitration that actually will determine the choices that South Carolina consumers  
24 face, and the prices that they pay.

25

1 Also I would note that the stay of the FCC's pricing rules also stay the FCC's  
2 interim surcharge on purchasers of the unbundled local switching element. The  
3 FCC Rules had provided state commission with the *option* of adopting a similar  
4 interim surcharge plan for intrastate toll calls originated or terminated by new  
5 entrants who purchase unbundled local switching elements. (FCC Order ¶ 729). I  
6 believe such a plan is unnecessary, is likely to lead only to fewer choices for  
7 consumers or higher consumer prices, and, during the pendency of the stay, would  
8 violate other FCC rules which remain in effect. The South Carolina Commission  
9 should explicitly reject any effort by BellSouth to impose an intrastate transitional  
10 surcharge.

11  
12 **Q. DO YOU HAVE ANY ADDITIONAL OBSERVATIONS?**

13 **A.** Yes. I offer two precautionary notes concerning how rapidly the market will change  
14 even after this Commission reaches its decision in this arbitration. The correct  
15 decision here *should* provide the foundation for competition and consumer choice.  
16 But local competition will not be instantaneous. Implementing this Commission's  
17 decision will take some time. It is for this reason (among others) that the  
18 Commission should move expeditiously to implement each of the comprehensive  
19 elements requested by AT&T so that competitive entrants can begin to test which  
20 options are most efficient to serve South Carolina consumers.

21  
22 Second, it is useful to recognize that this proceeding concerns only half of the Act's  
23 fundamental equation: opening BellSouth's monopoly in the local exchange market  
24 to competition. The second half of the equation, allowing BellSouth to provide long  
25 distance services in its territory is a question that is relevant only *after* local markets

1 become competitive. This single-minded focus on opening the local exchange  
2 market to competition is appropriate because establishing local competition is, by  
3 itself, a substantial and unprecedented undertaking that requires the Commission's  
4 undivided attention. What is important, however, is that the Act itself adopted a  
5 *compromise* -- effective local competition in exchange for interLATA entry -- and  
6 accomplishing the first step requires forcefully and completely implementing the  
7 tools entrants need to offer local services. The Commission cannot compromise its  
8 decision here without diluting the basic framework of the Act, seriously delaying  
9 local competition and the industry changes it is intended to herald.

10  
11 **Q. HOW DOES YOUR TESTIMONY RELATE TO THE TESTIMONY OF**  
12 **OTHER AT&T WITNESSES?**

13 **A.** My testimony describes the interrelationship among AT&T's requests in this  
14 arbitration and how these requests fit within an overall strategy to implement the  
15 Act. Other witnesses will provide detailed explanations of AT&T's requests for  
16 network elements, interconnection, transport and termination; wholesale services;  
17 the appropriate economic pricing principles to apply; as well as the particular  
18 dimensions of the operational support systems being requested. My role is to  
19 explain how these carrier-to-carrier issues can be expected to yield tangible benefits  
20 in the prices and choices experienced by consumers.

21  
22 **Q. HOW IS YOUR TESTIMONY ORGANIZED?**

23 **A.** In the testimony sections which follow, I:

- describe the competitive environment envisioned by the Act, with  
24 particular emphasis on its effect on consumer prices and choices (Section  
25 II);  
26  
27

- explain the particular importance of local services resale to achieving broad customer choice and accelerated entry (Section III);
- present the fundamental role of unbundled network elements -- particularly *combinations* of network elements -- to achieving the competitive structure contemplated by the Act (Section IV);
- describe the appropriate structure for the transport and termination of local traffic (Section V); and
- conclude with a discussion of the importance of operational changes needed to provide consumers with the widest choices with the least disruption (Section VI).

Q. IS THERE ANYTHING ELSE YOU WOULD SUGGEST?

A. To help illustrate, summarize and depict certain key aspects of my testimony, I have attached a set of illustrative/demonstrative aides. See Exhibit JPG-2.

## II. ACHIEVING THE COMPETITIVE ENVIRONMENT OF THE TELECOMMUNICATIONS ACT

### *A. The Competitive Environment*

Q. PLEASE DESCRIBE THE COMPETITIVE ENVIRONMENT ENVISIONED BY THE ACT.

A. The eventual competitive environment contemplated by the Act is an industry structure unseen since the divestiture of the Bell System in 1984: the emergence of the full service provider, a single firm offering local and long distance services. Of course, this time around, the goal is *multiple* full service providers, and not the reemergence of the Bell monopoly. Contemporary labels such as interexchange

1 carrier (IXC), competitive local exchange carrier (CLEC) and local exchange carrier  
2 (LEC), will become far less important (perhaps disappear) in the eyes of consumers.

3  
4 The threshold condition necessary to achieving this competitive end-point is a  
5 system of arrangements between carriers addressing network elements, reciprocal  
6 compensation, network interconnection and the resale of wholesale services. These  
7 basic tools will foster robust retail competition where consumer benefits arise  
8 relatively quickly, while the slower process of constructing networks moves  
9 forward.

10  
11 Importantly, Congress took the steps necessary to effect the transition to a fully  
12 competitive environment by adopting a completely new framework to govern the  
13 relationship between incumbent LECs and other carriers. This *carrier-to-carrier*  
14 framework provides entrants quite different entitlements -- and imposes on  
15 incumbent LECs quite different obligations -- than have existed in the past. This  
16 carrier-to-carrier framework is designed so that entrants may use BellSouth's  
17 existing network to fashion their own local exchange and exchange access services  
18 on an economic basis comparable to BellSouth.

19  
20 **Q. WHAT ARE THE CORE ELEMENTS OF THE CARRIER-TO-CARRIER**  
21 **FRAMEWORK OUTLINED BY THE ACT?**

22 **A.** The core provisions describing these new carrier-to-carrier relationships are  
23 contained in Sections 251 and 252 of the Act. In simple terms, these Sections  
24 impose on incumbent LECs, like BellSouth, the obligation to permit the resale of its  
25 retail services at wholesale prices, to make available elements of its network to

entrants at cost-based rates, and to implement a system of reciprocal compensation for the transport and termination of traffic. It is important to understand that together these items form the backbone of the relief AT&T seeks and are not options which BellSouth may, or may not, fulfill at its discretion. Rather, these are clear obligations which Congress adopted in order to effect a fundamental change in the telecommunications industry by promoting robust local entry.

**Q. WHY WOULD CONGRESS HAVE ADOPTED CARRIER-TO-CARRIER ARRANGEMENTS WHICH PROVIDE ENTRANTS THESE RIGHTS?**

**A.** The Act fundamentally recognized that full competition would be seriously delayed, if not effectively foreclosed, if it first required the building of new competitive exchange networks -- networks which, in some areas, may never be constructed. The Act removed this impediment by making the existing LEC network available to rivals, both to provide consumers choices more quickly and to accelerate the building of competitive exchange networks. As the FCC noted:

Congress addressed these problems [barriers to entry in the local market] in the 1996 Act by mandating that the most significant economic impediments to efficient entry into the monopolized local market must be removed. The incumbent LECs have economies of density, connectivity, and scale; traditionally, these have been viewed as creating a natural monopoly. As we [the FCC] pointed out in our NPRM, the local competition provisions of the Act require that these economies be shared with entrants. (FCC Order, ¶ 11).

**Q. WHY DON'T CARRIERS SIMPLY CONSTRUCT THEIR OWN LOCAL NETWORKS?**

**A.** While some local networks are under construction, no carrier can construct ubiquitous local networks capable of supporting broad competition throughout

1 BellSouth's territory. BellSouth's exchange network in South Carolina has  
2 approximately 343,659 business access lines and 910,703 residential access lines.<sup>1</sup>  
3 The ubiquity, reach and capacity of this network is enormous.  
4

5 **Q. IS LOOP CAPACITY THE MOST SIGNIFICANT MEASURE OF THE**  
6 **DOMINANCE OF BELL SOUTH'S EXCHANGE NETWORK?**

7 **A.** No. Measuring the network solely in terms of loops (i.e., the last connection to the  
8 customer) significantly understates the enormous (in fact, unprecedented)  
9 investment that would be necessary for even a single provider -- much less the  
10 multiple providers necessary for a fully competitive environment -- to duplicate. In  
11 addition to the loop plant to each and every premises in its territory, BellSouth's  
12 exchange network encompasses more than 200 local switches (including remotes)  
13 interconnected by a vast web of interoffice facilities. (Source: 1995 ARMIS 43-  
14 07). Because of the size and geographic reach of BellSouth's network, local  
15 competition would develop at a snail's pace unless this network could be used by  
16 other carriers to provide local exchange and exchange access services.  
17

18 **Q. IS THE ACT INTENDED PRIMARILY TO EASE ENTRY BARRIERS TO**  
19 **PROVIDE CARRIERS WITH NEW BUSINESS OPPORTUNITIES?**

20 **A.** No. In my opinion, the Act's ultimate purpose is to provide consumers with local  
21 choices (as they now enjoy in long distance); to eliminate confusion caused by the  
22 divestiture of the Bell System (separate providers of intraLATA and interLATA  
23 services), while retaining all of the divestiture's competitive benefits; and to set the

---

<sup>1</sup> Source: 1995 ARMIS 43.08, Table III, Access Lines in service by customer.



1 stage for less regulation of consumer prices. However, the path to lower consumer  
2 prices, newer services and increased convenience is through the tools contemplated  
3 by these new carrier-to-carrier arrangements required by the Act.  
4

5 ***B. The Importance Of Quickly Reducing Local Entry Barriers***  
6

7 **Q. WHY IS IT IMPORTANT TO REDUCE LOCAL ENTRY BARRIERS**  
8 **QUICKLY?**

9 **A.** As noted earlier, the fundamental balance of the Act is to establish the tools needed  
10 for other carriers to offer local services and, once effective local competition is  
11 firmly established, to permit BellSouth to offer long distance services in its territory.  
12

13 However, unlike the very real obstacles to local competition faced by rivals, the  
14 barriers confronting BellSouth essentially can be eliminated "with the stroke of a  
15 pen." Once legal restrictions are removed, BellSouth will be able to offer long  
16 distance services quickly and completely because entry barriers to the long distance  
17 market have fallen already in response to competitive entry.  
18

19 Barriers to entry in the long distance market are low because there is competition at  
20 both the marketing (retail) and network (wholesale) levels. At the wholesale level, a  
21 variety of companies compete to provide the central ingredients of long distance  
22 services -- transmission, switching, and billing. In effect, the long distance  
23 equivalents to unbundled network elements and the resale of wholesale services are  
24 already in place. A new entrant to the long distance market need not construct its  
25 own network or wait for the development of back-office systems to offer its